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# panarctic oils ltd



1989  
Annual Report



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## CORPORATE INFORMATION

### CORPORATE PROFILE

Panarctic Oils Ltd., an industry/government consortium, is owned more than 50 percent by the Government of Canada through Petro-Canada Inc., with the remainder of the shares held by 34 largely Canadian corporate or individual shareholders. Panarctic explores for oil and natural gas in the Canadian Arctic Islands north of the Canadian mainland. This effort has resulted in the discovery of large reserves of natural gas and modest amounts of crude oil. Gas reserves represent a 20 percent addition to Canada's gas supply. Company efforts are currently directed to producing and distributing small volumes of crude oil to Northern and Southern Canadian markets.

#### Head Office

Incorporated May 27, 1966  
by Federal Letters Patent  
Head Office  
815 Eighth Avenue South West  
Calgary, Alberta T2P 3P2

#### Bankers

Bank of Montreal  
Calgary, Alberta

#### Auditors

Price Waterhouse  
Calgary, Alberta

#### Annual Meeting

The annual meeting of shareholders of Panarctic Oils Ltd. will be held in the Company's head office located at Panarctic Plaza, 815 Eighth Avenue South West, Calgary, Alberta on Thursday, June 7th, 1990 at 9:00 a.m. M.D.T.

#### Officers

JOHN M. TAYLOR  
Chairman of the Board

WILBERT H. HOPPER  
Vice-Chairman of the Board

CHARLES R. HETHERINGTON  
President and Chief Executive Officer

COLIN S. MACDONALD  
Vice-President and Secretary-Treasurer

K. GREY ALEXANDER  
Assistant Secretary and  
Manager of Operations

CORINNE E. DAVEY  
Assistant Secretary

## PRESIDENT'S REPORT

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This is Panarctic's 22nd Annual Report and it is somewhat different from previous reports. Your Board of Directors approved the adoption of successful efforts accounting effective January 1, 1989. Further to this decision the Shareholders, at a special meeting held November 8, 1989, approved a reduction in the stated capital of the common shares of the Company. They also approved the application of this reduction to the Company's deficit. In addition, the Shareholders also approved the consolidation of the issued common shares of Panarctic on the basis of one common share for each ten common shares outstanding. The result of these actions are shown in the Audited Financial Statements which include for the first time an income statement. This is a significant change and one the Company believes is appropriate in its present circumstances.

1989 was significant for another reason as well. It marks the fifth consecutive year that the Company has successfully delivered crude oil out of the Arctic. This year 268,477 barrels in two shipments were sold to European and northern markets including 11,406 barrels to the Northern Canada Power Commission at Resolute Bay. Since completion of the Bent Horn facility on Cameron Island, Panarctic has sold in excess of 1,037,000 barrels. In 1990 the Company will attempt a three shipment season assuming crude oil prices maintain an economic level.

Panarctic conducted a geological and geophysical review during the year concentrating specifically on oil prone areas on land. This project will continue in 1990 with a view to perhaps doing a modest seismic program in the fall.

The company goes into 1990 in good financial shape with \$21 million in cash and term deposits and no long-term debt. It continues to operate with a small permanent staff supported by temporary employees for field operations.

The following directors did not stand for re-election or resigned due to business commitments during 1989, Messrs. John Andriuk, Barrie Clark, David O'Brien, Norman McIntyre and William Morrow. Panarctic would like to express its appreciation for the many years of service provided by these individuals to the Board.

Finally, the Company would like to thank its employees for their important contribution during 1989.



Chas. R. Hetherington  
President and Chief  
Executive Officer

Calgary, Alberta  
January, 1990





## BOARD OF DIRECTORS

RICHARD N. BROWN\*  
Senior Vice-President,  
Exploration  
Amoco Canada Petroleum Company Ltd.

J.A. DILLABOUGH\*\*  
Senior Vice-President,  
Production  
Canadian Hunter Exploration Ltd.

DALLAS E. HAWKINS  
President,  
Drake Petroleum

CHAS. R. HETHERINGTON\*  
President and Chief  
Executive Officer,  
Panarctic Oils Ltd.

WILBERT H. HOPPER  
Chairman and Chief  
Executive Officer,  
Petro-Canada Inc.

PETER KAYE\*  
Senior Vice-President,  
Exploration  
Petro-Canada Resources

EDWARD M. LAKUSTA\*  
President and Chief  
Operating Officer,  
Petro-Canada Inc.

DONALD N. MAXWELL\*\*  
Vice-President, Accounting  
and Information Services  
PanCanadian Petroleum Limited

RODNEY T. MCGRATH  
Vice-President, Operations  
Petro-Canada International  
Assistance Corporation

OWEN E. OWENS  
Vice President,  
Exploration  
Cominco Ltd.

JAMES PANTELIDIS  
Senior Vice-President,  
Production  
Petro-Canada Resources

DAVID E. POWELL  
Executive Vice-President and  
Chief Operating Officer,  
Home Oil Company Limited

STEPHEN R. SIEGFRIED  
President,  
Mosbacher Operating Ltd.

CHRISTOPHER J. SMITH  
Controller,  
Petro-Canada Inc.

JAMES M. STANFORD  
President,  
Petro-Canada Resources

JOHN M. TAYLOR  
Businessman,  
Calgary, Alberta

WILLIAM B. THOMPSON  
Vice-President and  
General Manager,  
Petro-Canada Resources

C. ROLF V. THOMSON  
Vice-President,  
Exploration  
PanCanadian Petroleum Limited

MURRAY B. TODD  
Senior Vice-President,  
Production  
Amoco Canada Petroleum Company Ltd.

WESLEY R. TWISS\*\*  
Senior Vice-President,  
Finance and Planning  
Petro-Canada Inc.

\* Member of the Executive Committee of the Board

\*\* Member of the Audit Committee of the Board

## FIVE YEAR OPERATING AND FINANCIAL SUMMARY

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	<u>1989</u>	<u>1988</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>
Crude Oil Production (bbls)	<b>264</b>	347	216	108	185
Crude Oil Sales (bbls)	<b>268</b>	296	265	103	105
Sales Revenue	\$ <b>5,638</b>	\$ 5,170	\$ 6,162	\$ 2,020	\$ 3,960
Transportation Costs	\$ <b>2,754</b>	\$ 1,836	\$ 1,929	\$ 1,013	\$ 880

### Share Capital as at December 31

Number of Shares *	<b>7,017</b>	70,172	70,172	70,172	70,172
Capital *	\$ <b>35,712</b>	\$ 298,712	\$ 298,712	\$ 298,712	\$ 298,712
Cash Flow per Share	\$ <b>0.04</b>	-	-	-	-

### Land Holdings as at December 31

Gross Hectares	<b>324</b>	324	538	5,426	11,977
Net Hectares**	<b>128</b>	129	275	1,603	4,715

\* 1989 reflects Share Consolidation and reduction in Stated Capital

\*\* Subject to 10 percent net profits interest

Note: All amounts shown in the summary are in thousands,  
except the per share values which are in dollars.





## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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The consolidated financial statements and other financial information relating to the Company contained in this annual report have been prepared by Management, which is responsible for the integrity and objectivity of this information. The financial statements have been prepared in conformity with generally accepted accounting principles. These financial statements necessarily include some amounts that are based on informed judgements and best estimates of Management.

Management depends upon a system of internal accounting controls to meet its responsibility for reliable and accurate reporting. Management modifies and improves the system of internal accounting and controls in response to changes in business conditions and exercises its judgments in business in determining that a reasonable balance is maintained between the costs of such controls and the benefits to be derived therefrom.

Price Waterhouse, Panarctic's independent auditor, is engaged to express a professional opinion on the financial statements. The examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures which allow them to report on the fairness of the financial statements prepared by Management.

Four non-Management directors of the Company serve as the Audit Committee. The Board of Directors, through the Audit Committee, oversees Management's responsibilities for financial reporting. The Audit Committee meets with Management and the independent auditor to discuss auditing and financial matters and to gain assurance that its responsibilities are being carried out. The independent auditor has full and free access to the Audit Committee.

## AUDITORS' REPORT

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To the Shareholders of Panarctic Oils Ltd.

We have examined the consolidated balance sheet of Panarctic Oils Ltd. as at December 31, 1989 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Calgary, Alberta  
January 25, 1990

*Price Waterhouse*

Price Waterhouse  
Chartered Accountants

# CONSOLIDATED BALANCE SHEET

(thousands of dollars)

	December 31	
	<u>1989</u>	<u>1988</u>
Assets		
Current Assets:		
Cash and term deposits	\$ 21,065	\$ 19,846
Accounts receivable	200	315
Inventory of supplies (Note 6)	5,950	6,318
Prepaid expenses and sundry advances	74	113
	<u>27,289</u>	<u>26,592</u>
Capital Assets:		
Property, plant and equipment, net (Note 3)	8,170	5,310
Exploration expenditures (Note 2)	—	266,967
	<u>8,170</u>	<u>272,277</u>
	<u>\$ 35,459</u>	<u>\$ 298,869</u>
Liabilities		
Current Liabilities:		
Accounts payable & accrued liabilities	\$ 533	\$ 157
	<u>533</u>	<u>157</u>
Shareholders' equity		
Share Capital (Note 5)	35,712	298,712
Deficit	<786>	—
	<u>34,926</u>	<u>298,712</u>
Contingencies and Commitments (Note 6)		
	<u>\$ 35,459</u>	<u>\$ 298,869</u>

Approved by the Board

*Jim Taylor*

Director

*Chas. R. Hetherington*

Director



## CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

(thousands of dollars)

For the year ended  
December 31, 1989

Revenue:

Crude oil sales	\$ 5,638
Investment income	<u>2,161</u>
	<u>7,799</u>

Expenses:

Crude oil transportation	2,754
Crude oil marketing	1,257
Facility maintenance and operating	611
Depreciation, depletion and amortization	1,888
Administrative and general	2,287
Geological and geophysical	217
Interest expense	171
Other	184
Impairment of non-producing properties	<u>262,216</u>
	<u>271,585</u>

Loss for the year 263,786

Retained Earnings at beginning of year —

Share Capital Reduction (Note 5) 263,000

Deficit at end of year \$ 786

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

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(thousands of dollars)

	For the year ended December 31	
	1989	1988
Cash provided by (used in) operating activities:		
Income (loss)	\$ <263,786>	\$ —
Exploration expenditures	—	2,097
Add: Depreciation, depletion, amortization and other non-cash items	1,878	1,652
Impairment of non-producing properties	<u>262,216</u>	<u>—</u>
	308	3,749
Net change in non-cash working capital balances	<u>898</u>	<u>2,415</u>
	<u>1,206</u>	<u>6,164</u>
Cash provided by (used in) investing activities:		
Petroleum Incentives Program grants	—	1,232
Purchase of equipment	<30>	<31>
Proceeds from sale of fixed assets	<u>43</u>	<u>320</u>
	<u>13</u>	<u>1,521</u>
Net increase in cash during the year	1,219	7,685
Cash at beginning of year	<u>19,846</u>	<u>12,161</u>
Cash at end of year	\$ <u>21,065</u>	\$ <u>19,846</u>





# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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December 31, 1989

## 1. ACCOUNTING POLICIES:

### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Rigel Airways Ltd.

### **Inventory of Supplies**

Inventories are recorded at average laid down cost in the Arctic.

### **Oil and Gas Exploration and Development Expenditures**

The Company follows the successful efforts method of accounting under which the initial acquisition costs of oil and gas properties and the cost of drilling and equipping successful exploratory wells and development wells are capitalized. The costs of exploration wells classified as unsuccessful are charged to earnings. All other exploration expenditures including geological and geophysical and annual rentals on exploratory acreage are charged to earnings as incurred.

### **Depreciation, Depletion and Amortization**

Capitalized costs with respect to proved oil and gas properties are amortized on the unit of production method using estimated proved oil and gas reserves. Depreciation of investment in plant and equipment is based on the estimated remaining useful life of the asset using either the straight line or unit of production method. Capitalized costs of significant unproved oil and gas properties are assessed regularly to determine whether an impairment in value has occurred.

### **Pension Plan**

The Company has a defined contribution pension plan covering all employees. Company costs of the plan are charged to operations.

## 2. CHANGE IN ACCOUNTING POLICY:

As a consequence of the Company's changed circumstances with respect to its business and exploration activities, the Company adopted the successful efforts method of accounting on a prospective basis effective January 1, 1989. Previously the activities of the Company were considered to be in the exploratory stage and all expenses, less recoveries from contract operations and revenue realized on sale of crude oil production, were capitalized.

As a result of this change the Company carried out an impairment review of the non-producing oil and gas properties which resulted in a provision for impairment of \$262,216,000 being recorded against earnings in the current year.

### 3. PROPERTY, PLANT AND EQUIPMENT:

		December 31,1989		
	Cost	Accumulated Depreciation Depletion & Amortization	Net Book Value	Net Book Value December 31, 1988
(thousands of dollars)				
Oil and gas	\$16,315	\$ 8,819	\$ 7,496	\$ 4,386
Drilling equipment	26,341	26,333	8	23
Camps and buildings	5,816	5,816	—	—
Mobile equipment	4,819	4,791	28	50
Storage facilities	3,008	3,008	—	—
Aircraft	1,147	1,008	139	203
Radio & navigational equipment	1,610	1,603	7	12
Other	6,495	6,003	492	636
	<u>\$65,551</u>	<u>\$57,381</u>	<u>\$ 8,170</u>	<u>\$ 5,310</u>

Costs for all asset pools are reduced by government incentive grants and investment tax credits claimed.

### 4. INCOME TAXES:

The Company's tax loss for the year on an accounting basis was \$1,400,000. The tax benefits related to the non-producing properties written off, amounting to \$262,216,000, had been transferred to shareholders under flow through share arrangements in prior years. No provision for a recovery of income taxes has been made against this loss due to uncertainty in being able to utilize such loss in future years. In addition, the Company has remaining tax pools available to claim against future income in an amount of \$1,600,000 in excess of the related net book values. The Company has investment tax credits totalling \$600,000. These credits, which expire between 1990 and 1992, may be applied against future federal income tax liabilities.



## 5. SHARE CAPITAL:

At a Special Shareholders' Meeting held November 8th, 1989, approval was given to consolidate the issued and outstanding shares of the Company on the basis of one new share for each ten shares previously issued. On December 31st, 1989 there were 7,017,210 issued and outstanding shares after consolidation.

At the same meeting approval was also given to reduce the Stated Capital of the Company's common shares by \$263 million and that this reduction be applied against the Company's deficit.

### Common Share Summary (Dollar amounts in thousands)

Authorized - Unlimited Common Shares of no par value

	1989		1988	
	Number of Shares	Amount	Number of Shares	Amount
Issued, beginning of year	70,171,964	\$ 298,712	70,171,964	\$ 298,712
Share Consolidation	<63,154,754>	<263,000>	—	—
Issued, end of year	7,017,210	\$ 35,712	70,171,964	\$ 298,712

Warrants are outstanding which entitle the holders thereof to purchase an aggregate of 1,143,994 additional common shares at \$10.00 per share. These warrants expire December 31, 1990.

## 6. CONTINGENCIES AND COMMITMENTS:

(a) The Company has substantially curtailed its exploration operations. The inventory of supplies, consisting primarily of fuel and drilling mud, which are not normally subject to physical deterioration has been valued at cost on the basis that the Company will continue as a going concern and utilize such inventory in future drilling operations in the Arctic. Should the Company be required to dispose of its inventory on a liquidation basis, the realizable value would be substantially less than the cost reflected in these financial statements.

(b) The Company is contingently liable for the abandonment of sixteen wells located in the Arctic Islands in which it has working interests ranging from 45% to 100%. All but one of the wells are located on land. No immediate abandonment program is planned, however discussion will be commenced in mid 1990 with federal regulatory officials with regard to the present status of these wells and their ultimate disposition. The Company conducts an annual inspection of each well.

(c) The Company has a lease agreement covering the rental of office facilities which expires January 31, 1993. The net rental obligations after subleases, amounts to approximately \$1,300,000 annually.

## SUMMARY OF SHAREHOLDERS

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	Common Shares
Petro-Canada Inc.	3,700,206
PanCanadian Petroleum Limited	555,808
Amoco Canada Resources Ltd.	464,589
Cominco Ltd.	428,092
Mosbacher Operating Ltd.	350,000
Home Oil Company Limited	316,813
Inco Limited	257,933
Noranda Inc.	238,140
Canada Northwest Energy Limited	158,733
Oakwood Petroleums Ltd.	110,046
Venwest Resources Limited	99,523
Bankeno Mines Limited	93,338
Bow Valley Industries Ltd.	91,038
Placer Dome Inc.	73,863
Norcen Energy Resources Limited	46,153
Sigma Mines (Quebec) Ltd.	8,219
Merritt, Robert Keith	4,000
Hetherington, Rose	3,094
Crombie, Ethel I.	3,000
Nesbitt Thomson Bongard Inc.	2,764
Canadian Superior Oil Ltd.	1,889
Henao, Diego	1,750
Connelly, E.	1,383
Saskatchewan Oil and Gas Corporation	1,235
Armstrong, Jack Greaves	1,000
Tanner, B.C.	938
Alexander, K. Grey	800
Atco Drilling Holdings Ltd	800
Pembina Resources Ltd.	769
Ultramar Canada Inc.	519
Place Resources Corporation	290
Luscar Ltd.	200
Estate of James E. Day	198
Franklin, Lindsay J.	49
Canadian Moran Ltd.	38
	<u>7,017,210</u>





